



## Fact Sheet

# Overview of Finland

Research Office  
Legislative Council Secretariat

FSC15/18-19

### Geography

#### Land area

- Finland, officially named as the Republic of Finland, is located in northern Europe, surrounded by Russia, Sweden and Norway.
- Its total land area is 303 910 sq km, heavily covered by forest (taking up three-fourths of land) and large amount of lakes (188 000 altogether).
- Helsinki is both the capital of the country and seat of government.



Source: Vector stock.

### Demographics

#### Population

- Finland has a population of about 5.5 million at end-June 2019, within whom 93% are mostly Finns speaking either Finnish or Swedish. Foreign residents accounted for the rest of 7% and most of them come from Russia and Estonia.

#### Gross Domestic Product ("GDP")

- The Finnish economy was the 44<sup>th</sup> largest in the world, with GDP of US\$275 billion (HK\$2,158 billion) in 2018.
- At US\$49,800 (HK\$390,700), Finland's GDP per capita ranked 15<sup>th</sup> in the world in 2018.<sup>1</sup>

<sup>1</sup> By comparison, GDP per capita of Hong Kong was US\$48,500 (HK\$380,300) in 2018, about 3% lower than that of Finland. Hong Kong was ranked the 17<sup>th</sup> highest in the world.

Economy	
Economic structure	<ul style="list-style-type: none"> <li>• GDP composition by sector in 2017 was:               <ul style="list-style-type: none"> <li>(a) agriculture (3%);</li> <li>(b) industry (28%); and</li> <li>(c) services (69%).</li> </ul> </li> <li>• Benefited from heavy coverage of forest, wood and paper industry plays a significant role in Finland, accounting for 20% of its export revenue. Circular and biodegradable processing is seen in paper production, as Finland is globally renowned for its environmental friendliness. Renewable energy takes up about one-third of energy consumption in Finland.</li> <li>• The manufacturing sector in Finland was once dominated by a large mobile phone maker (i.e. "Nokia") in the 1990-2000s, taking up as much as 40% of global sales of mobile phones and contributing to 23% of overall corporate tax revenue in Finland at its peak. Yet this Finnish manufacturer registered a sharp decline after 2007, as its device-based operating system ("OS") could not compete with emerging platform-based OS applied in smartphones. The demise of Nokia has created an adjustment challenge to Finnish economy in the 2000s.</li> <li>• Finland is ranked as the third most innovative country (after South Korea and Germany) in the world in 2019, according to the Bloomberg Innovation Index. In spite of the decline of Nokia, many competitive business firms (e.g. "Angry Birds" in gaming software or "eHealth and telemedicine" in healthcare technology) have emerged over the past two decades.</li> </ul>
Recent economic performance	<ul style="list-style-type: none"> <li>• The Finnish economy has encountered several crises over the past three decades, including a deep recession in <b>the early 1990s</b> due to the collapse of the neighbouring Soviet Union, excessive welfare spending and outbreak of banking crises. GDP contracted by 10% during 1990-1993 and unemployment rate surged to nearly 17% in 1994.</li> </ul>

<b>Economy (cont'd)</b>	
Recent economic performance (cont'd)	<ul style="list-style-type: none"> <li>• This was followed by a prolonged setback caused by the <b>global financial crisis in 2008</b>. Coupled with the collapse of the mobile phone business of Nokia, weakening global demand for wood and recession in Russia, GDP fell by a total of 5.8% during 2008-2014, along with an upsurge in annual unemployment rate from 6.4% to 8.7%.</li> <li>• However, the Finnish economy managed to stage a solid recovery in recent years, on the back of a pick-up in domestic demand especially in construction expenditure. GDP grew at an average annual rate of 1.8% during 2015-2017, with its GDP level in 2017 eventually returning to its pre-crisis level in 2008.</li> <li>• Most recently in 2018, Finnish economy accelerated to the 2.4% growth, underpinned by robust domestic demand and expanding business investment amidst a low interest rate environment. More importantly, the unemployment rate has fallen visibly from 9.4% to 7.4% during 2015-2018, on the back of welfare reforms (to be discussed later) to incentivize welfare recipients to revert to work.</li> </ul>
Near-term economic outlook	<ul style="list-style-type: none"> <li>• Looking ahead, International Monetary Fund forecasts that Finnish GDP will register further solid growth in the short-term, by 1.9% in 2019 and 1.7% in 2020. While sustained consumer and investment spending can support its GDP, an increasingly protectionist trading environment could weaken Finnish export demand.</li> </ul>
<b>Salient features of Finland and its recent policy developments</b>	
Salient features of Finland	<ul style="list-style-type: none"> <li>• Finland is a <b>Nordic welfare state</b>, characterized by more generous welfare benefits (e.g. public social spending representing about 29% of GDP), more even income distribution (with Gini Coefficient as low as 0.27), higher tax rate (with a tax rate of 56% for the top bracket of personal income), larger public sector (with government outlays representing about 57% of GDP). Yet this has also led to concerns over its welfare sustainability, as manifested in occasional outbreak of economic crises and its higher unemployment rate.</li> </ul>

**Salient features of Finland and its recent policy developments (cont'd)**

Salient features of Finland (cont'd)

- Finland is ranked as the **happiest country in the world** for the second consecutive year in 2019, according to the World Happiness Report published by the United Nations. The ranking exercise is based on six key variables of well-being (i.e. income, freedom, trust, healthy life expectancy, social support and generosity).
- Finland is also renowned for its **gender-equality**, with women being granted to vote as early as in 1906. After the election in April 2019, 92 of the 200 Members in the new parliament are women, with a high ratio of 46%. This was the second highest in Europe, just after Iceland.

Recent reforms in employment policy

- The Finnish government has been attempting to improve working incentive and reduce welfare burden by introducing the following measures in recent years:
  - (a) **Cutting unemployment benefits:** In January 2017, the government shortened the maximum duration of unemployment benefits from 500 days to 400 days. It also imposed a stricter condition of active job search for such benefit receivers;
  - (b) **Reform of pension system:** The Finnish government reformed the pension system to lengthen the career life of its workforce in 2017, raising the lowest retirement age gradually from 63 to 65 by 2027;
  - (c) **Competitiveness Pact:** In June 2016, the Finnish government, trade unions and employers' organizations reached a tripartite agreement, which included (i) wage freeze for 2017; (ii) reduced pay for public sector employees; and (iii) extended annual working time by 24 hours without additional compensation. This could lower unit labour cost and stimulate job creation; and

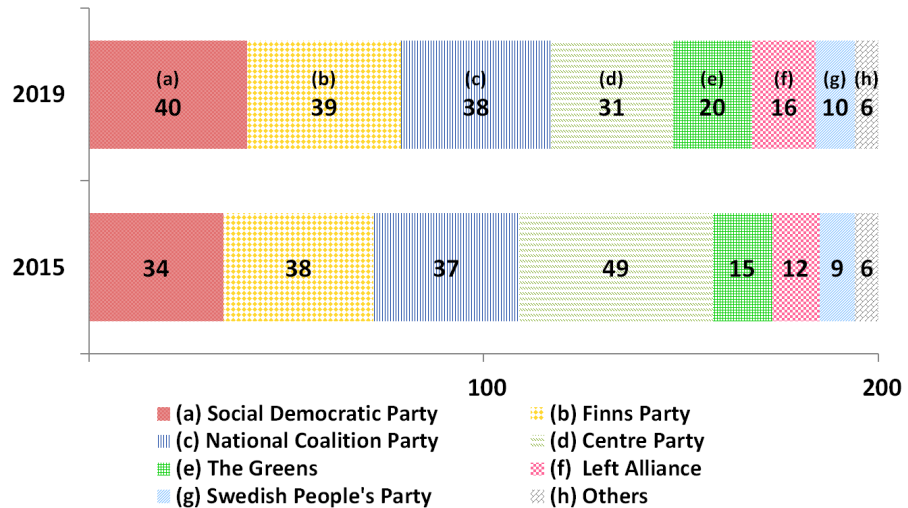
**Salient features of Finland and its recent policy developments (cont'd)**

<p>Recent reforms in employment policy (cont'd)</p>	<p>(d) <b>Basic income experiment:</b> In 2017-2018, the government conducted an experiment to provide €560 (HK\$4,940) to 2 000 randomly selected unemployed citizens each month, on an unconditional basis. This sought to reduce their reliance on other financial assistance while free up their time for working or job seeking. However, the preliminary result in February 2019 showed that the additional employment effect of basic income was negligible, of just 0.4 day on average within the year. The Finnish government will decide the way forward after the release of full report of this experiment in spring 2020.</p>
<p>Recent social and healthcare reforms</p>	<ul style="list-style-type: none"> <li>• As many as 1.2 million of Finnish people aged 65 or above in 2018, accounting for 22% of its total population. Ageing has been a longstanding challenge to the Finnish welfare system.</li> <li>• In March 2017, the Government put forward a social and healthcare reform ("SOTE") to transfer the responsibility of providing healthcare and social services from lower-level municipalities to 18 higher-level counties from January 2021 onwards. The reform is intended to cut short waiting time by corporatizing or privatizing some of the healthcare services provided by the municipal government.</li> <li>• Yet the privatization proposal under SOTE was ruled by a parliamentary committee as "unconstitutional". As such, SOTE could not garner enough support in the Parliament. This led to the resignation of the Prime Minister Juha Sipilä on 8 March 2019, right before the scheduled general election in April 2019.</li> </ul>

**Salient features of Finland and its recent policy developments (cont'd)**

Parliamentary election in April 2019

- In the parliamentary election held on 14 April 2019, around 2 500 candidates from 19 political parties competed for 200 seats. The voter turnout rate was 72.1%, the highest since 1995.
- Sipilä-led Centre Party won 31 seats only (down from 49), and hence, lost its dominant position in Parliament. On the other hand, the Social Democratic Party ("SDP") won the most seats (40 seats), on the back of its pledge to increase welfare spending financed by a tax hike in the election campaign. The political fragmentation is serious, with no single party winning more than 40 or one-fifth of seats for the first time in the Finnish parliamentary history.



- Antti Rinne, the leader of SDP formed a five-party coalition government with Centre Party, the Greens, Left Alliance and Swedish People's Party. He was appointed as the Prime Minister in June 2019, becoming the first leftist to hold such position in the past two decades. The left-leaning administration is committed to balance public finances by 2023, in spite of an additional recurrent expenditure of €1.3 billion (HK\$11.4 billion) on education, social security, climate change and other policy domains.

<b>Historical background</b>	
Absorbed by Swedish Empire since 1155	<ul style="list-style-type: none"> <li>From the 12<sup>th</sup> century, Finland became a battleground between Russia and Sweden. The rivalry between these two powers was subsequently turned into a religious rivalry between the Roman Catholic Church supported by Sweden and the Orthodox Church which belonged to Russia. King Eric of Sweden led a crusade to Finland and absorbed the country into the Swedish Empire in 1155.</li> </ul>
Russian occupation since 1809	<ul style="list-style-type: none"> <li>When Sweden lost its status as a leading power at the beginning of the 18<sup>th</sup> century, Russia began to exert more pressure on Finland. Finland was conquered by Russia in 1809 and became an autonomous Grand Duchy.<sup>2</sup> The Russian Emperor or Tsar was the Grand Duke, whose representative in Finland was the Governor General. Under Russian occupation, Finland became a state with its own assembly, elections, local administration, legislation, army, currency and post office.</li> </ul>
Independence of Finland in 1917	<ul style="list-style-type: none"> <li>During the Russian Revolution in 1917, Finland declared its independence on 6 December 1917. France, Germany and Sweden were amongst the first countries to recognize Finland as an independent state.</li> <li>The new form of Finnish government was confirmed in 1919. It would become a republic, with the President as the head of state.</li> </ul>
Conflicts with the Soviet Union during 1939-1948	<ul style="list-style-type: none"> <li>The Soviet Union attacked Finland during the winter of 1939-1940, and this Winter War lasted for 105 days. The ensuing interim peace lasted until the summer of 1941, when the Continuation War between Finland and the Soviet Union broke out. After the end of the war in September 1944, Finland was forced to surrender some of its territory to the Soviet Union.</li> </ul>

<sup>2</sup> A Grand Duchy is a territory whose head of state is a monarch, either a grand duke or grand duchess.

<b>Historical background (cont'd)</b>	
Conflicts with the Soviet Union during 1939-1948 (cont'd)	<ul style="list-style-type: none"> <li>• Finland maintained a neutral political position throughout the Cold War era. Nevertheless, Finland signed an Agreement of Friendship, Cooperation, and Mutual Assistance with the Soviet Union in 1948 for the provision of mutual defence.</li> </ul>
Increased European integration since the 1950s	<ul style="list-style-type: none"> <li>• During the 1950s, Finland consolidated its position in the international community. For example, it became a member of the United Nations and the Nordic Council (an inter-parliamentary body for the Nordic countries) in 1955.</li> <li>• Upon the unification of Europe and the disintegration of the Soviet Union in the 1990s, Finland joined the European Union ("EU") as a full member in 1995. In January 2002, Finland and 11 other countries adopted the euro as their single currency.<sup>3</sup></li> </ul>
<b>Political background</b>	
Government leadership	<ul style="list-style-type: none"> <li>• Finland's proportional representation system encourages a multitude of political parties and formation of coalition governments. Centre Party, SDP, National Coalition Party, and Finns Party are the four major parties dominated the political arena in recent years, but none of them has a majority position.</li> <li>• In the 2011 parliamentary election, National Coalition Party became the largest party in Parliament, ending eight years of rule by the Centre Party-led coalition. Its leader Jyrki Katainen became the Prime Minister after the election, forming a six-party coalition. In June 2014, Katainen stepped down from the Prime Minister to take up a senior post in the EU, Alexander Stubb of the National Coalition Party succeeded as the Prime Minister.</li> </ul>

<sup>3</sup> Finland is the only Nordic country to adopt the euro as the national currency.



<b>Political background (cont'd)</b>	
Government leadership (cont'd)	<ul style="list-style-type: none"> <li>• In the 2015 parliamentary election, the Centre Party became the largest party in the Parliament. Its leader Juha Sipilä became the Prime Minister, pledging healthcare reform to relieve its financial pressure from social welfare system. But Sipilä failed to honour his pledge and resigned on 8 March 2019 right before the scheduled election one month later.</li> <li>• As discussed above, SDP won the parliamentary election held on 14 April 2019. The leftist Antti Rinne of SDP has become the Prime Minister since June 2019.</li> </ul>
<b>Institutions of the Constitution</b>	
Executive Branch	<ul style="list-style-type: none"> <li>• Finland has a mixed presidential/parliamentary system with executive power divided between the <b>President</b> (who primarily directs national security and foreign affairs) and the <b>Prime Minister</b> (who has primary responsibility for all other areas including the EU issues).</li> <li>• <b>Council of State</b> consists of the prime minister and up to 18 ministers. The current government is led by SDP in coalition with other four parties, including Centre Party, the Greens, Left Alliance and Swedish People's Party.</li> <li>• Sauli Niinistö has served as the President since March 2012 and was re-elected for his second term in January 2018, while Antti Rinne from SDP has been appointed the Prime Minister since June 2019.</li> </ul>
Legislative Branch	<ul style="list-style-type: none"> <li>• The Parliament is unicameral in Finland, made up of 200 Members returned from 13 electoral districts predominantly under a proportional representation system. Parliamentary elections take place every four years, unless the Parliament is dissolved earlier by a presidential order.</li> </ul>

<b>Institutions of the Constitution (cont'd)</b>	
Judicial Branch	<ul style="list-style-type: none"> <li>• The Judicial Branch of Finland is divided into:               <ul style="list-style-type: none"> <li>(a) courts for regular civil and criminal jurisdiction, consisting of the Supreme Court, five Courts of Appeal and 20 District Courts;</li> <li>(b) administrative courts with jurisdiction over litigation between individuals and the public administration; and</li> <li>(c) specialized courts such as the Labour Court and the Insurance Court.</li> </ul> </li> </ul>
<b>Presidential election</b>	
Frequency	<ul style="list-style-type: none"> <li>• Presidential election is held by direct popular vote once every six years. The next presidential election is scheduled for 28 January 2024, the fourth Sunday of January in the election year.</li> <li>• The latest election was held on 28 January 2018. Sauli Niinistö, an independent candidate who used to represent the National Coalition Party in the 2012 presidential election, was re-elected for his second-term with an overwhelming 62.7% of votes.</li> </ul>
Election method	<ul style="list-style-type: none"> <li>• The President is elected by two rounds of direct voting and can serve a maximum of two consecutive terms. To be elected as President, the candidate must be a native-born Finnish citizen.</li> <li>• Any candidate that receives more than half of the approved votes in the first round wins the election and becomes the president. If no clear winner emerges in the first round, the second election will be held between the two front-runners in the first election, with the one receiving most votes being the elected President.</li> <li>• If there is only one nominated candidate, election is not necessary and the person will be appointed President directly.</li> </ul>

<b>Election of the Parliament of Finland ("Eduskunta")</b>	
Frequency	<ul style="list-style-type: none"> <li>• Election of Parliament is held once every four years. The next election is scheduled for 16 April 2023, the third Sunday in April of the election year except for Easter Sunday.</li> <li>• In the most recent election for the 2019-2022 term held on 14 April 2019, SDP obtained 17.7% of the cast votes and became the largest party with 40 seats in the 200-seat Parliament. This was followed by Finns Party (39 seats) and National Coalition Party (38 seats). By contrast, the ruling Centre Party won 31 seats only, down by 18 seats.</li> </ul>
Election method	<ul style="list-style-type: none"> <li>• The Parliament comprised 200 Members predominantly elected by direct and proportional elections, except the district of Åland.<sup>4</sup> For 12 of the 13 districts, each party gains seats in relation to the votes cast for it relative to the votes cast for other parties. The number of seats (varying between 7 and 36 seats) designated for these 12 districts is dependent on the population size of Finnish citizen.</li> </ul>
Current party division	<ul style="list-style-type: none"> <li>• The current composition of Parliament for the 2019-2022 term by parliamentary groups is as follows: <ul style="list-style-type: none"> <li>(a) Social Democratic Party (40 Members);</li> <li>(b) Finns Party (39 Members);</li> <li>(c) National Coalition Party (38 Members);</li> <li>(d) Centre Party (31 Members);</li> <li>(e) The Greens (20 Members);</li> <li>(f) Left Alliance (16 Members);</li> <li>(g) Swedish People's Party (10 Members);</li> <li>(h) Christian Democrats (5 Members); and</li> <li>(i) Liike Nyt ("Movement Now") (1 Member).</li> </ul> </li> <li>• Matti Vanhanen, the former Prime Minister of Finland and the former chairman of Centre Party, has been the Speaker of Parliament since June 2019.</li> </ul>

<sup>4</sup> As an exception, the single-seat election for the electoral district of Åland is conducted by simple majority.

<b>Ties with Hong Kong</b>	
Trade	<ul style="list-style-type: none"> <li>Importance of Finland to Hong Kong's external trade in the first half of 2019:               <ol style="list-style-type: none"> <li>54<sup>th</sup> largest trading partner;</li> <li>53<sup>rd</sup> largest export market; and</li> <li>55<sup>th</sup> largest source of imports.</li> </ol> </li> </ul>
Tourism	<ul style="list-style-type: none"> <li>In the first half of 2019, visitor arrivals from Finland to Hong Kong decreased by 7.1% year-on-year to 12 936, representing 0.04% of the total visitor arrivals during the period.</li> </ul>
Investment	<ul style="list-style-type: none"> <li>As at June 2018, Finnish companies established 9 regional offices and 9 local offices in Hong Kong.</li> </ul>

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